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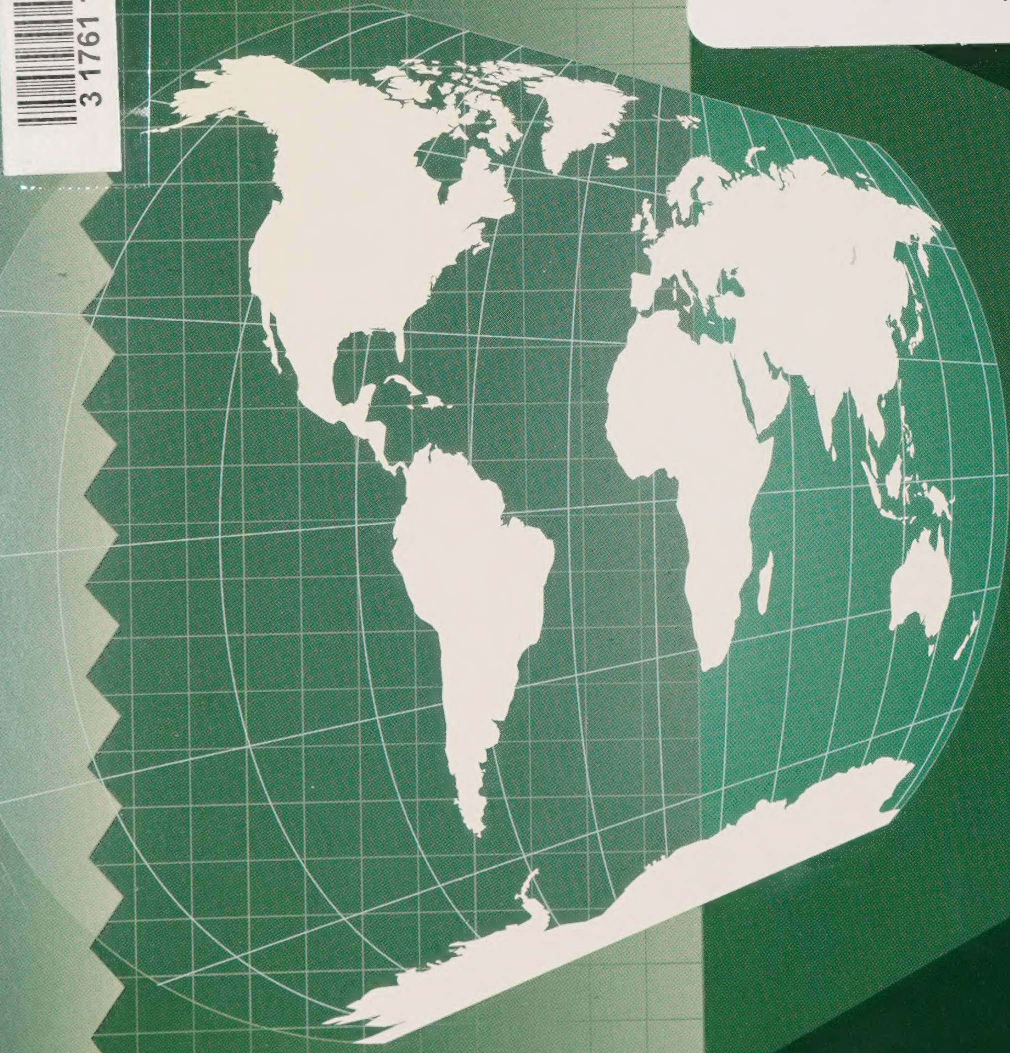

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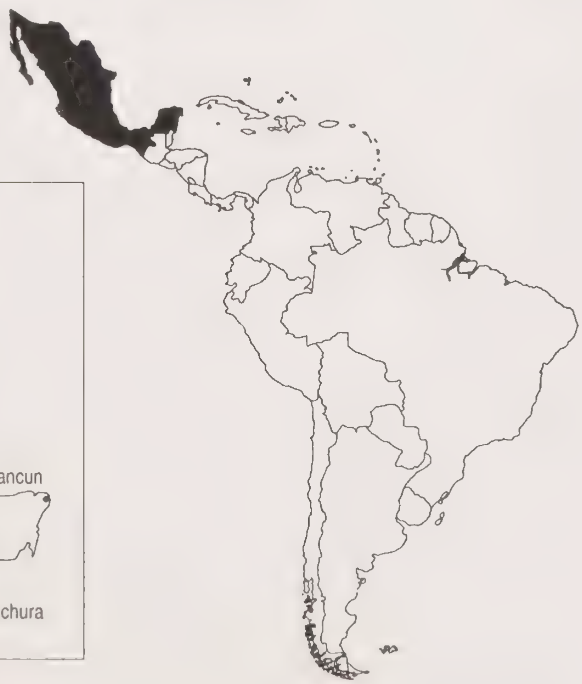
Mexico covers 1.9 million km^2. It is bounded by the U.S. at the north, the Pacific Ocean at the west and south, the Gulf of Mexico and the Caribbean Sea at the east, and Guatemala and Belize at the southeast. Its land borders total 4538 kilometres in length and its coastlines total 9330 kilometres. The country is divided into 31 states and one federal district that includes the capital, Mexico City.

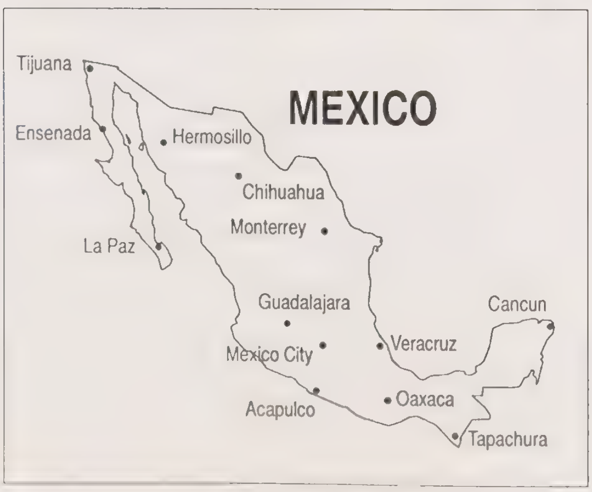
Characterized by high rugged mountains, low coastal plains, high plateaus and desert, Mexico contains six major geographic regions:

- **Pacific Northwest:** generally dry, rolling, a mountainous desert.
- **Plateau of Mexico:** the largest region, containing most of the population (58 percent), and many of the largest cities, including the capital (Mexico City) and the major manufacturing centres of Guadalajara, Leon, Queretaro, and San Juan Potosi. It comprises several sub-regions, including an active volcanic area in the south, a central plateau (the economic hub), a northern plateau of low mountains, the Sierra Madre Occidental mountain range in the west, and the Sierra Madre Oriental range in the east.
- **Gulf Coastal Plain:** eastern coastline, dry forest in the north, tropical rain forest in the south.
- **Southern Uplands:** primarily a large, hot, dry valley area.
- **Chiapas Highlands:** a small, southern, mountainous region.
- **Yucatan Peninsula:** at the southeast reach of the country, this area is a limestone plateau with no surface water; it is dry in the north, and includes a rain forest at the south.

The climate varies from tropical to desert. Northern Mexico is primarily dry, consisting mainly of desert and semi-desert areas. Southern Mexico is tropical.

Environmental issues include natural fresh water pollution, river pollution from raw sewage and industry, deforestation, widespread soil erosion, and serious urban air pollution.





Mexico is the world's largest Spanish-speaking nation, with a population of 91.6 million, of which 76 percent live in urban areas. The average annual population growth rate is 1.9 percent, and the population density is 46.5 inhabitants per km^2. Of the population, 38 percent is 14 years of age and under, 57 percent is 15 to 64 years old, and 5 percent is 65 years or older. The literacy rate is 88 percent. The portion of the population that sustains the demand for housing is the group between 25 and 50 years of age. This group constituted 38 percent of the population in 1990, and is expected to form 48 percent of the population by 2010. Almost 40 percent of the population is under the age of 14, compared to 21 percent in Canada. The age profile will be a major factor in future housing demand.

Approximately 20 million people live in the capital of Mexico City. It is estimated that the population of Mexico City grows by one thousand people per day. Other major cities include Monterrey with a population of just more than 2 million inhabitants and Guadalajara with a population of 2.4 million people. The population of Mexico is forecast to reach 99 million people by the year 2000.

Average earning levels are low, but the more than 20 million people in the middle and upper classes consume high volumes of foreign goods, and the number is growing. The average family has four to five members, and live in a two-bedroom dwelling, and earn $1720 to $3500 pesos per month ($310 to $640 per month).

ECONOMIC OVERVIEW

In the early to middle 1980s, Mexico's economy, like others, experienced the collapse in oil prices. Its export earnings dropped, and the country became unable to service its foreign debt independently. The banking system was nationalized, so bank loans to the government could be used to service the debt. Consequently, no money was available for the national economy. Economic stagnation and high inflation resulted.

To combat the troubles of the first part of the decade, Mexico instituted free-market reforms in 1987. These included liberalization of economic institutions, attention to needed social reforms, promotion of competition, and the evolution of a more market-driven, flexible economy. Negotiations toward membership in NAFTA and privatization of industry were parts of this reform movement. Privatization efforts were impressive — in 1982, there were 1156 government companies; by 1991, there were only 280. Capital investment in the first two years of the 1990s was double that of the entire previous decade, and Mexico's real income was expected to grow by 3 to 4 percent annually through to 2000.

In 1993, Mexico revalued the Peso to just over one thousand times its 1992 value (in June of 1992, the Peso was equivalent to $0.0004; in June of 1993, it was pegged at $0.4098). Mexican export goods soon became overpriced and lost their international competitiveness.

Mexico entered 1995 in financial crisis. In late 1994, to finance the huge trade gap created by an overvalued peso and increasing current accounts, the government grew to rely on portfolio investments. Mexico's political crises, combined with high international interest rates and fears of devaluation, caused a loss of investor confidence and massive capital outflows. Resultant dwindling foreign exchange reserves, which had been used to prop up the peso, forced the government to allow the peso to float freely on the market. It quickly lost up to 40 percent against the U.S. dollar. Emergency measures failed to restore investor confidence.

Almost immediately after coming into power in December of 1994, the government stopped shoring up the artificially inflated peso. The peso was allowed to float freely on the international market; a sharp devaluation resulted (the peso went from roughly $0.40 to just over $0.20) and economic crisis ensued. Some of the results and ramifications of this crisis included:

- the construction sector had been enjoying 5 to 6 percent in annual growth in the previous 10 years, but was hit hard by the devaluation. Many projects were discontinued. Resultant high interest rates and capital shortages are expected to continue to hamper construction for the short-term;
- prior to the peso devaluation, many builders had taken bridging loans to finance works in progress. After the devaluation, 85 percent of builders found themselves in financial difficulty;
- imports of building materials fell off sharply;
- efforts were made by industry to replace normal import items (like doors and windows) with Mexican items, or at least items manufactured by Mexican labour;
- soaring interest rates hampered government efforts to increase spending on public housing;
- the economic crisis, coupled with the shortage of housing, forced Mexican buyers to consider non-traditional methods;
- wealthy citizens with large bank balances experienced asset reductions of almost one-third;
- many former middle-class buyers were forced to move down to low-income housing or move in with relatives, resulting in a reduced demand for middle-class housing;
- mortgages became virtually unavailable. For loans that were available, interest rates exceeded 50 percent (up from usual rates of 23 to 28 percent); and
- some foreign companies closed their Mexico operations. Those which weathered the storm

had typically focussed on niche markets and provided their own financing.

In addition to fiscal reforms, the government introduced the National Development Plan for the years 1995 to 2000. This plan was designed to further stabilize the financial system and modernize the economy. Some general goals with housing market relevance are:

- to attain economic growth rates above 5 percent once the current financial situation is overcome and economic recovery consolidated;
- to deregulate and promote domestic and foreign competition in an effort to combat monopolistic practices by private and public companies; and
- to promote extensive private investment (both domestic and foreign) in infrastructure works.

Since the 1995 institution of reform policies, the economy has advanced. Some indicators of improvement include:

- interest rates receded from a high of 85 percent in March, 1995 to 40 percent in August;
- the exchange rate began to stabilize in the second half of 1995. Fluctuations early in the year between 6 and 7.5 pesos per U.S. dollar began to level off at just over six pesos per U.S. dollar in July and August;
- dollar-pegged government debt was reduced from US$29.2 billion at the end of 1994 to US$3.1 billion by the end of August 1995; and
- average monthly inflation was reduced from over 8 percent in early 1995 to about 1 percent at the end of the year.

The country's current account balance has improved, and the economy has opened various sectors up to international investment. Ninety percent of the economy has been opened to 100 percent foreign ownership.

Recent economic problems notwithstanding, Mexico is one of the 20 largest world economies, and it is one of the fastest growing economies in the world. The construction sector is historically very strong, and the growth rate in volume of mortgages is expected to reach 20 percent per year and range up to 50 percent per year by the late 1990s. There are, however, some obstacles to growth in the housing sector:

- regulatory costs to the developer and buyer can be as much as 25 percent of the cost of the home;
- there is a shortage of land in urban areas; existing laws prevent its conversion from farm land to residential development land; and
- high land transfer taxes discourage private owners from selling land.

The Mexican construction industry lacks accurate housing sector statistics and current information. This makes it difficult to know and respond to current trends.

Additionally, Mexico is still poor compared to Canada. What is considered commonplace by Canadians is considered luxurious by Mexicans. However, with strong economic growth during the recovery of the economy, per capita income may rise. Because of the overall income distribution, a slight shift will mean that a large number of people will move into higher income brackets.

Overall, the peso devaluation bodes well for Mexican exporters by making their products less expensive on the international market. On the other hand, it may give cause for inflationary concerns—if producers increase prices and labour rates rise, high inflation will result.

Inflation in Mexico was 52 percent in 1995 and is expected to reach 30 percent in 1996.

Prospects for solid economic growth remained dim throughout 1995, although forecasters predicted long-term prosperity. Comparative indicators for Mexico for 1994 are shown in Table 1.

The recovery from the crisis of 1994-95 is gradually taking hold in the Mexican economy. Year-over-year GDP growth in the second quarter of 1996 was positive for the first time since the crisis. The government's adjustment program can be credited with bringing down inflation, stabilizing the peso and reviving capital inflows.

The weak banking sector is no longer in danger of collapse, thanks to considerable government support, as well as new private investments (including those of two Canadian banks), but lack of credit continues to constrain growth.

Real GDP is only now back to pre-crisis levels, and less than half of the approximately 1.2 million

jobs that were lost have been regained. The government is very conscious that high levels of economic growth must be achieved over the next several years to satisfy the needs of a labour force which is growing at over 3 percent per year. Its strategy rests primarily on continued macro-economic stability, far-reaching structural reforms and export market diversification.

Table 1:
Mexico: 1994 Economic Indicators

	Value	Units
GDP per capita	$3100	Canadian Dollars
Construction GDP per capita	$46	Canadian Dollars
GDP Growth Rate	3.5%	Per Year
GNDI Growth Rate	3.2%	Per Year
Inflation	7.1%	Per Year
Unemployment	9.8%	of the work force
Balance on Current Acct. per capita	-$450	Canadian Dollars
External Debt per capita	$1978	Canadian Dollars

Sources: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 1995; Central Intelligence Agency (CIA), Country References, July 1995

Despite considerable political opposition, the government is sticking to its plans for privatization, albeit with some setbacks, and trade agreements are being negotiated in Latin America and with the European Union.

Growth: After a nearly 7 percent shrinkage in the economy in 1995, GDP increased by 7.2 percent in the second quarter of this year and by 3.1 percent in the first half (year-over-year). Private sector forecasts for growth in 1996 are being revised upward, with most now at least 1 percentage point above the government's target of 3 percent. Growth has been gradually spreading beyond the booming export sector, with the industrial sector showing the strongest growth (11.9 percent), followed by construction (7.8 percent), services (5.4 percent) and agricultural (4 percent, despite the severe drought) in the first half of 1996.

Inflation: While monthly inflation has been coming down steadily, prices have risen by 18.5 percent in the first eight months of the year, putting the government's target of 20.5 percent for 1996 out of reach. Monthly inflation is expected to rebound in the coming months, because of seasonal factors and expected increases in controlled prices this fall. Private sector forecasts for inflation for the year are now in the range of 28 percent.

Social conditions: High inflation, widespread job loss and high interest rates have hit the middle and lower classes very hard. Five million more Mexicans have had to recur to government food support. The minimum wage is 13 percent below, and industrial wages some 20 percent below, the 1994 levels in real terms. Overall, Mexicans have accepted this pain with considerable stoicism. Protests by the well-organized debtors group have waned as the government has met some of its demands. While the recent emergence of a new guerrilla group in the poorer states of Mexico can be related to economic hardship, in general Mexicans are reluctant to engage in violent protest.

Financial markets and foreign investment: Markets appear to be less vulnerable now to negative political developments than they were a year ago, and capital inflows have revived. The peso has been fairly stable this year at an average exchange of 7.5 pesos to the dollar, with no central bank intervention.

Foreign direct investment in the first half of 1996 was US$3.1 billion, which compares favourably with 1993 levels, although it is still below the record 1994 level. Portfolio investment (in both stocks and the money market) increased sharply in the second quarter to US$2.8 billion. The Bolsa (Mexican stock market), in U.S. dollar terms, was up by more than 20 percent in 1996 (but still well below pre-crisis levels). The Mexican government has successfully returned to international capital markets, using borrowed funds to pay off more than two-thirds of U.S. Treasury emergency credits, thereby restructuring its debt at longer maturities and lower costs.

The central bank has at the same time succeeded in building up international reserves of US$3.7 billion in 1996, in addition to the US$12 billion it is holding in IMF credit. Interest

rates have come down sharply (the yield on 28-day Treasury Bills has declined from 49 percent last December to current rates of around 23 percent). The decline in nominal interest rates is beginning to catch up with the decline in inflation, which will lower real interest rates and encourage growth. Given the weak state of the commercial banking system, however, credit is still scarce and spreads are very high (commercial loan rates are currently in the region of 34 percent).

Banks: The government's policy of ensuring that no bank will fail has shown results in terms of stabilizing the sector and improving capitalization levels, but at a large cost to the taxpayer. An estimated US$22 billion or 8 percent of GDP has been committed by the government for the rescue of banks and the relief of debtors. Foreign investments, such as those of Scotia Bank and the Bank of Montreal in two of Mexico's major banks, will help raise capitalization levels and improve management practices. A strategic alliance between the Royal Bank and Aurum-Heller Financial is expected to improve available trade financing for Canada-Mexico trade, particularly in the small and medium sized company sector.

External Sector: In contrast to the US$18 billion trade deficit in 1994, Mexico's exports exceeded imports by US$4.6 billion for the first seven months of 1996. Unfortunately, the trade surplus in the non-maquiladora manufacturing sector is beginning to shrink, as a result of the dependence of Mexican industry on imported intermediate goods. While this means that there is a good market for Canadian exporters of intermediate goods, it also means that higher growth in the economy is constrained by the dependence on imports.

Structural Reform: The government has continued with the process of privatization and de-monopolization of key sectors of the economy, including some elements of the politically sensitive energy sector. Of particular interest to Canada is the opening in the telecommunications, natural gas, and electricity sectors. The required changes in regulations and standards have been complex and in some instances are opposed by powerful interests. The government is aware that further delays in the process could discourage foreign investors, and has expressed its determination to press ahead.

Financial markets performed relatively well in 1996, in spite of political insurgence. In the week following unrest, interest rates rose by 109 basis points in relation to the benchmark 28-day Treasury Certificates (CETES). The stock market reacted negatively at first to the rising interest rates, but later recovered to gain 1 percent. The peso was not pressured and in fact appreciated 0.3 percent closing at 7.56 to the U.S. dollar.

The World Bank announced the expansion of its program in Mexico and has committed US$2 billion to Mexico in 1996, of which US$1.2 billion has already been distributed to the regions. The World Bank has stressed the importance of Mexico to the bank initiatives, and lauded the Mexican government's economic policy, in particular, its willingness to continue fiscal and monetary discipline.

POLITICAL OVERVIEW

The Party of the Institutional Revolution (PRI) has been in power since 1929. The last election in August 1994, was marked by an unprecedented turnout (78 percent).

The year 1994 had been one of the most troubled in recent Mexican history, marked by a January uprising in the impoverished Southeastern state of Chiapas and, in March and September, respectively, the assassination of two prominent political figures: the then Presidential candidate of the PRI (Luis Donaldo Colosio) and the party's Secretary General (José Francisco Ruiz Massieu). The country's troubles were not yet over: following a botched devaluation of the peso only days after the President took office, Mexico entered a deep financial crisis.

Quite apart from the economic crisis, the government continues to face a number of other challenges. In Chiapas, in October 1995, following months of stalling by the rebel EZLN (Zapatistas), serious peace talks began and are now progressing satisfactorily.

In the face of major challenges, the President has thus far persevered with political and electoral reform. In important state elections, the ruling PRI has gracefully ceded power to the National Action Party (PAN). PAN is centre right and now holds 4 of Mexico's 32 states. There have been many frustrations in Chiapas but the President evidently remains committed to a negotiated and long-term solution. He has given the portfolio of Attorney General to a member of the opposition and has repeatedly indicated his intention to end corruption and human rights abuses.

Analysts now concur that the 1994-95 economic crisis was due as much to flaws in the political system as to errors of judgement and inappropriate economic strategy. Accordingly, if the fragile recovery is to be consolidated, continued political reforms are essential.

Mexico is an influential member of several regional organizations, and is an important multilateral partner for Canada as well. It is a founding member of the Rio Group, and its views are given strong consideration when the Group takes a common stand. In the Organization of American States (OAS), which Canada joined in January 1990, Mexico is the fourth-largest contributor after the United States, Canada and Brazil. In November 1993, Mexico became a member of the Asia-Pacific Economic Co-operation (APEC) forum and in June 1994, it joined the Organization for Economic Co-operation and Development (OECD).

TRADE POLICY

Canada's relationship with Mexico is broader and more substantial than with any other Latin American country. While implementation of the North American Free Trade Agreement (NAFTA) is currently a priority, it is by no means the only issue in the dynamic and expanding relationship between the two countries. A stronger partnership with Mexico is an important element in Canada's policy toward Latin America.

Since 1990, numerous ministerial exchanges have taken place in sectors such as trade, agriculture, energy and mining, and communications. Since March 1990, more than 35 bilateral agreements have been signed, including the first double taxation agreement signed by Mexico, as well as agreements on environmental cooperation, distance education, mining, culture and legal matters.

In 1990, there were approximately 17.4 million households in Mexico. In 1994, the housing stock numbered about 18.2 million units. Eighty percent of these were owned by the occupants (an increase in ownership by about 2 percent over 1990); 24 percent had one or two rooms (compared to 35 percent in 1990), 63 percent had three to five rooms (compared to 54 percent in 1990), and 13 percent had more than five rooms (compared to 11 percent in 1990). By 1995, the housing stock had increased to approximately 19.1 million units. Much of the existing stock is deficient in quality. Only about half of the units have piped water, and three- quarters have electricity. By the year 2000, there will be approximately 22.1 million households.

Mexican construction techniques are different from Canadian methods. The primary residential building materials are cement, cement blocks and adobe. Living is oriented to the street or to courtyard arrangements, with low-rise high-density housing in many centres. High density high-rise living is common in major urban centres. The average luxury home costs ten to fifteen times more than the average lower-income level home.

The most recent year for which detailed data on housing is available was 1990. The following table indicates the general state of housing in Mexico in 1990.

Table 2:
Mexico: 1990 Housing Characteristics

Based on Surveyed Stock of 16,035,233 units*		
By Type of Occupancy:	Owner	12,486,898
	Tenant	2,347,459
	Other	1,098,682
By Number of Rooms:	1	3,772,533
	2	3,719,354
	3	2,994,636
	4, 5	1,998,592
	6+	76,210
	Unknown	3,473,908
By Number of Occupants:	1	756,122
	2	1,613,852
	3	2,273,356
	4	2,891,718
	5	2,720,743
	6	2,019,766
	7	1,374,917
	8	916,160
	9+	1,468,599
	Unknown	
By Available Services:	Domestic Water	12,729,985
	Flush Toilets	7,688,224
	Sewage Disposal	8,362,838
	Bathroom	unknown
	Power	14,033,451

*Individual categories do not necessarily add up to surveyed total.
Sources: ECLAC, Human Settlements: The Shelter of Development, October 1995; Statistical Yearbook for Latin America and the Caribbean, 1995

Overview

The Mexican economy has a huge requirement for capital. Many Mexican businesses are looking for investors with long-term outlook and deep pockets. Despite its lucrative appearance, the Mexican market has its drawbacks—mainly financial and transportation-oriented.

There is no formal mortgage banking system. Buyers either have to pay cash or get short-term loans with large down payments and high interest rates. Builders are attempting to persuade Mexican bankers to develop a mortgage market. Banks are now increasing their mortgage portfolios, but mortgages have been allocated mainly to the middle and upper classes. Mortgages that have become available are expensive (50 percent or more) and generally only available to those making more than five times the minimum wage. Less than 5 percent of projected housing requirements are in this category, but strong demand at this level allows the banks to reject low-income applicants.

There is a pressing need in Mexico for improvement of its transportation infrastructure—especially roads and railways. Mexico's roads cannot currently handle the demand for transportation of goods. The government is interested in promoting and developing central and southern Mexico, so opportunities should become available there, but infrastructure and transportation problems will have to be addressed first.

In September of 1995, the Infrastructure Investment Fund was created to stimulate investment of private resources in the infrastructure system. The initial government allocation to the fund was $1.6 billion pesos (approximately US$350 million).

In Mexico, roughly 19,000 companies make up the formal construction sector. Two percent are large firms responsible for 45 percent of total production, 7 percent are mid-size firms responsible for 15 percent of total production, and 91 percent are small firms, responsible for 40 percent of production. The group representing the construction industry in Mexico is the Camara Nacional de la Construccion (National Chamber of the Construction Industry).

Construction companies are classified by size as micro, small, medium, large or giant. These classifications are described in terms of revenue ranges, as shown in the following table.

Table 3: Mexico: Classification of Construction Companies

Designation	Upper Revenue Limit ($N Pesos x 1,000)	Upper Revenue Limit ($Canadian, 1996)	No. of Companies in 1995
Micro	2,982.9	$542,000	15,313
Small	5,336.9	$970,000	1,182
Medium	12,476.9	$2.3 million	986
Large	25,230.9	$4.6 million	434
Giant	>25,230.9	>$4.6 million	471

Source: Mexico, Department of Economics and Statistics

In 1995, approximately 3 percent of formal sector companies were classified as giants, and accounted for more than 60 percent of the value of formal sector construction. Micro companies made up approximately 80 percent of the formal sector and accounted for approximately 22 percent of the value of formal sector construction. The majority of the country's construction companies are concentrated in the federal district and the state of Jalisco—in 1995, 5054 companies in those regions represented 33 percent of the total number of firms in the country.

Over half of the total number of construction companies are home building firms. The majority of formal sector housing projects are built by about 500 of the largest of these firms. New projects are initiated by builders who take the risk of financing and selling. The process of risk-by-builder also applies to government program housing. Once sold, banks provide mortgages to buyers. Some middle-income and virtually all upper-income housing is built without up-front risk to the builder—the buyers in those cases can afford to arrange their own financing or pay for the work from their own resources. The planning,

construction and selling cycle usually takes up to one and a half years.

About half of the new homes built each year are built by owners (the informal sector). This is often done without financial assistance and without title to the land. The remaining half is built by the formal sector, through assistance programs for low-income buyers or through private sale to middle and upper-income buyers.

Major Participants in the Housing Industry

Of the more than 10,000 home building firms in Mexico, the top 500 or so are responsible for building most new housing. About 300 home builders have annual sales of $4 million or more. Builders tend to specialize in particular cost ranges.

Corporacion Geo is the most prolific builder of low-income homes under the government programs, because it has a reputation for delivering quality at reasonable cost in a crowded market. Geo also employs innovation to keep costs down and quality high. By designing buildings with common walls and building roofs from Styrofoam, reinforced with steel and cement and covered by Spanish tiles, the company has succeeded in reducing the cost of a residential unit by one-third. To raise funds for land acquisition, Geo went public in 1994. Geo's 1995 earnings were in the order of US$8 million from US$130 million in sales, despite a gloomy construction economy in which interest rates were high, and banks had no money for mortgages. Geo expected to sell 9000 homes in 1996, about 5 percent of the low-income market. By statistical comparison, half of the country's 800 largest residential builders may go out of business.

Other major home builders include:

- Grupo ICA, GUTSA, PROTEXA, and Grupo Alfa, these are industrial conglomerates involved in all aspects of housing. They supply themselves with materials, and have their own financing departments; and
- Grupo SADASI, a major builder operating in the state of Mexico. As an example of its undertakings, Grupo SADASI completed a four-thousand unit residential development in 1994. The units were concrete, and sold for around US$48,000 each.

The most important government housing agencies include:

- National Fund for the Construction of Housing for Labour Union Workers (INFONAVIT). This agency provides mortgage loans to private sector union members, who make payroll contributions to INFONAVIT. Loans can be used to buy homes built by INFONAVIT;
- National Federation for Industrial Housing Promotion (FOVI). FOVI channels federal government funds to commercial banks for low-cost mortgages. Commercial banks pay FOVI 2 to 3 percent less than the average cost of funds for the banking system, and offer mortgages to qualifying buyers at the average cost, plus some administrative fees. Commercial banks bid for FOVI funds, and assume full default risk. Payments are tied to minimum wage. If inflation outpaces minimum wage, making the term go beyond 20 years, FOVI assumes the balance outstanding at year 20. FOVI also offers partial guarantees in cases of default;
- Housing Fund of the Social Security System for State Service Workers (FOVISSSTE). This agency is similar to INFONAVIT, but smaller in scale; and
- Federal Low-Income Housing Fund (FONHAPO). This agency targets the largest and poorest sector of the housing market. It lends money to other agencies that build homes for non-salaried workers.

Leading mortgage lenders in Mexico include Banco de Comercio with approximately 32 percent of the market, Banco Nacional de Mexico with 29 percent of the market, and Banca Serfin with 11 percent of the market.

Key Housing Market Institutions

The Secretaria de Desarrollo Social (SEDESOL, Secretariat for Social Development) oversees all housing sector activities, develops and manages policies, and coordinates public housing programs. It also controls the transfer of public land for urban use. SEDESOL's strategy emphasizes the

involvement of commercial banks in low and moderate-income mortgages. Tools for implementing this strategy include secondary mortgage markets, down payment savings accounts, and payroll deduction schemes. These are aimed at reducing risk and increasing yield on low-income loans for banks.

Relevant Regulatory Systems

Standards are controlled by the Direccion General de Normas (DGN, Directorate General for Standardization). Standards are generally consistent with those of other industrialized countries and are based on the metric system. Imported goods must bear DGN certification before they can enter the country. It should be noted that many test labs are owned by local manufacturers.

The Fundacion de la Industria de la Construccion (Construction Industry Foundation) focuses on supporting innovative technologies that can be of benefit to the construction industry. This institution also searches for foreign techniques that can be transplanted to the local marketplace.

There is a general building code, and each state enacts its own version, with modifications that ensure regional characteristics are addressed.

In Mexico, it is estimated that 25 percent of the cost of residential construction is attributable to excessive local regulation. In addition to financial hardships, local firms complain about the time and trouble involved in securing land titles and building permits. Bribes are often required to speed up the process.

Housing as a National Priority

Well before the peso's collapse in late 1994, the government realized it had to come to terms with its housing problems. In the ten years preceding 1994, Mexico invested 4 to 5 percent of GDP annually in housing. This was not sufficient to reduce the housing shortage, and the level of funding was not sustainable. Problems were intensified by moderate population growth, rapid urbanization, and financial imbalance (70 percent of the population required public financing for housing). The government therefore decided to implement policies that would increase private sector involvement and strengthen public programs for the poor.

In 1987, the government began encouraging banks and public agencies to open new lines of credit for rental properties to promote investment in rental housing. It also began offering incentives like tax credits and accelerated depreciation in support of the same goal. The government also supported a small pilot program, called Fideicomiso Casa Propia, in Mexico City, which offered mortgage loans to low-income renters for the purchase and upgrading of their rental units.

The Salinas administration (from 1988 to 1994) proposed a number of reforms designed to improve the operation of Mexico's housing markets, expand the role of private lenders, and increase the supply of capital for housing construction and mortgage financing. These reforms included:

- allowing communal landowners to sell their parcels to developers to free up more land for housing developments;
- reducing property transfer taxes from 10 percent to 2 percent;
- standardizing and reducing fees for searching and conveying property titles; and
- creating a retirement savings systems to increase the amount of capital available to banks for mortgage lending.

The National Development Plan (1989) called for the addition of six to eight million housing units, at the rate of 320,000 per year. Despite the positive intentions of these reforms, they had little opportunity to change the housing system because of the steadily deteriorating economy.

Prior to 1992, the government controlled social housing through the agency named INFONAVIT, which designed low-income housing and hired contractors to build it. In 1992, Salinas changed INFONAVIT into a subsidized mortgage lender, funded through a 5 percent tax on all private sector salaries. This program continues under the current President. The builders now take the risk. They build and market the homes and take the buyer's mortgage to INFONAVIT for approval. INFONAVIT grants the mortgage (to those who qualify) in exchange for a percentage of salary over a specific time; for example, 25 percent of salary for 20 years. A worker earning in the range of US$240 per month can buy a home for less than

US$1400 down and US$60 per month. In the future, the government mortgage system is expected to become similar to the United States' Federal National Mortgage Association, where mortgage portfolios are secured and loans are co-financed through private banks.

In his first year in office (1995), the new President promised to boost government spending on public housing by 25 percent. It is unlikely that his intention has been realized to date, mainly because of persistently high interest rates.

As a consequence of the peso devaluation, the government introduced measures to stabilize the economy. One, targeted to housing, is the Programa Especial para la Vivienda (PEV, Special Housing Program). It includes two initiatives:

- the Support Program to Mortgages (Programa de Apoyo a Deudores de Creditos de Vivienda) is intended to refinance 225,000 mortgages at favourable terms. Preference is to be given to loans under 100,000 pesos (about US$18,000) with variable interest rates. Mortgages can be restructured for terms of up to 30 years with no commissions charged by the commercial banks. Interest rates are 7.5 percent for loans under 100,000 pesos and 10 percent for loans over 200,000 pesos; and

- the Programa para la Edificacion de Vivienda o Autoconstruccion is intended to re-establish financing for builders who had to abandon construction. This could affect up to 30,000 units started in 1995.

A series of Fondo de Operacion y Financiamiento Bancario a la Vivienda, (FOVI), the Federal Housing Fund initiatives were designed to rejuvenate construction and create employment:

- through the regular program, 70,000 homes were built by the end of 1995, and through a supplementary program another 48,000 to be built in 1996;

- bridging loans offered by banks are to have the same protection as individual mortgages; and

- funds for housing loans are to be provided to Sociedades Financieras de Objeto Limitado, which are institutions with limited credit, authorized by the government to make housing loans.

The government has recently shifted its role in the provision of housing. It utilizes various programs to ensure all income levels have access to housing, while placing the responsibility for providing housing on the private sector. Some of the actions the government has taken include:

- simplification of procedures involved in property purchase;

- encouragement of cost reductions in real estate transactions;

- reduction of land speculation by making more urban land available for housing;

- development of a secondary mortgage market, intended to increase the supply of capital for housing, reduce the cost of the capital, and promote housing. The market will include a trust fund mechanism to secure mortgage loans. To enter the secondary market, banks are required to join the fund and contribute to it;

- promotion of material sales oriented to self-help construction; and

- encouragement of research aimed at reducing costs and improving quality.

The comparative activities, present and projected, of the various financing agencies are shown in Table 4.

The main social housing financing agencies operating presently in Mexico are summarized in Table 5.

The financing agencies provide funding through various housing programs, as summarized in Table 6.

Table 4: Mexico: Projected Market Shares (percent) for Financing Sources

Source	1996	1997	1998	1999	2000
INFONAVIT	36.6	31.1	31.9	32.6	33.3
FOVISSSTE	11.6	11.8	10.9	10.0	9.2
FOVI	25.7	35.2	34.0	32.7	31.3
FONHAPO	6.5	5.3	6.2	7.1	7.8
BANOBRAS	8.4	7.4	7.9	8.3	8.8
BANCA	11.1	9.2	9.1	9.3	9.6

Source: Mexico, Department of Economics and Statistics

Table 5:
Mexico: Funding Sources for Social Housing

Acronym	Spanish Name	Translation	Description
FONHAPO	Fondo Nacional de Habitaciones Populares	National Trust Fund for Low-Income Housing	Provides financing for families earning up to 2.5 times the minimum monthly salary. Down payment requirement varies from 5 to 10 percent. Interest rates are 3 to 4 percent plus the percentage annual change in the MMS*.
INFONAVIT	Instituto del Fondo Nacional de la Vivienda para los Trabajadores	Housing Pension Fund for Private Sector Employees	Provides assistance to employees earning up to 3 times the MMS, using resources from employers' mandatory contributions of 5 percent of payroll. Promotes third party (formal sector) construction. Cannot be used for lot purchase.
FOVI	Fondo de Operacion y Financiamiento Bancario a la Vivienda	Federal Housing Fund of the Bank of Mexico	Provides assistance to the general population with earnings between 4 and 12 MMS and means of obtaining additional credit through private banks. Loans of up to 90 percent of cost, with up to 25-year amortization. Loans made for new units, acquisition of serviced lots, down payments, improvements, purchase of materials. Loans also made for development of lands (including necessary equipment and machinery) for housing projects, and for research into new materials and construction methods.
FOVISSSTE	Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado	Housing Pension Fund for Public Sector Employees	Same type of program as INFONAVIT, but for government employees earning up to 3 MMS.
FIVIDESU	Fideicomiso de Vivienda, Desarollo Social y Urbano	Trust Fund for Housing, Social and Urban Development	Provides support through the Housing Improvement Program, and involves actions oriented toward efforts that help to improve housing programs.
BANOBRAS	Banco Nacional de Obras y Servicios Publicos	Public Works and Services National Bank	Provides financing for medium and medium-low income housing. Charges commercial interest rates.
BANCA		Commercial Banks	Provides financing (mortgages) for housing to the sector of the population earning in excess of 12 MMS. Historic distribution pattern is 37 percent high end, 35 percent medium income, 28 percent social housing. Minimum down payment requirements apply.

*MMS—Minimum Monthly Salaries
Source: Mexico, Department of Economics and Statistics

Table 6:
Mexico: Housing Programs

Acronym	Spanish Name	Translation	Purpose
PVP	Programa de Vivienda Progresiva	Program for Housing Construction by Phases	Provides financing for a basic unit which can be expanded gradually as finances allow. Basic unit comprises sanitary facilities and multi-purpose room.
PLS	Programa Lotes con Servicios	Serviced Lots Program	Provides loans for the purchase of serviced lots.
PMV	Programa de Mejoramiento de Vivienda	Housing Improvement Program	Provides loans for repair, upgrading, expansion or provision of services.
SAT	Subprograma Adquisicion a Terceros	Third Party Sub-program	Provides loans for the purchase of previously-owned dwellings.
PVT	Programa de Vivienda Terminada	Finished Housing Unit Program	Provides financing for housing developments through tender calls.

Source: Mexico, Department of Economics and Statistics

There are a number of lesser programs in addition to those listed in Table 6. Table 7 illustrates the relative degrees of popularity of the major programs.

Table 7:
Mexico: Housing Programs, Market Share (%)

Program	1993	1994	1995
PVT	41	51	43
PVP	25	5	3
PLS	1	10	2
PMV	27	23	51
Others	6	11	1
No. of Loans	554,500	622,800	556,300

Source: Mexico, Department of Economics and Statistics

MATERIALS, LABOUR AND FINANCING

Materials

For the transportation of materials, Mexico has 242 300 km of roadway (approximately 80,767 km paved, 54,000 km are main roads and 4000 km are toll roads), and 26,400 km of railway. There are 140 sea ports, the busiest of which are located at Altamira, Lazaro Cardenas, Manzanillo and Veracruz. There are 116 airports with runways greater than 1.5 km in length. The transportation infrastructure is badly in need of repair.

Ninety-five percent of Mexican housing construction materials originate from within the country. The real cost of capital, however, is about twice what it is in Canada. Capital intensive goods may therefore be more economical to produce in Canada.

Road transport is the primary means of moving goods within Mexico. Roads handle 45 percent of Canada's exports to Mexico and 66 percent of Mexico's exports to Canada. Mexican law requires that goods within Mexico be transported by a Mexican carrier. A foreign trailer can be used, as long as the tractor is registered in Mexico and the driver is a national. After 1997, Canada will be able to truck goods directly into Mexico.

Rail shipment can be accomplished to major centres. Rail shipment can clear customs as fast or faster than truck shipments. Maritime shipping rates are competitive with road and rail, but maritime shipping is much slower. Air transport is generally used only for high-value cargo.

Labour

Most construction workers are not skilled in anything but the traditional cement and masonry techniques. Wood and plastic methods and materials present training difficulties.

Financing

Financing for housing generally originates from one or more of four sources: a family's own resources (for down payment); government assistance (which can augment a family's own resources); pension funds; and commercial banks (mainly for the middle and high-end housing markets).

Government Assistance. Home builders compete for government funds by auction. Successful firms must use the funds to build low-income housing. Potential purchasers who meet the requirements (earnings of less than fifteen times the minimum yearly wage—this includes the vast majority) may qualify for mortgages from commercial banks. The mortgages are backed by the government for up to 60 percent of the balance in cases of default. This is a recent initiative on the part of the government, to induce banks to provide mortgages to low-income families. Other government housing programs are available, usually as a means of last resort for low-income buyers, and usually well patronized.

Pension plan funds. Employers must contribute 5 percent of earnings to pension funds. The funds are used for home financing. The client target group is families earning from one to ten times the minimum yearly wage (approximately US$2300 as of mid-1994). Lending is concentrated in the target group of the two to seven times range, which accounts for about 55 percent of the population. The interest rate is 11 to 15 percent. In 1994, pension plans accounted for 27 percent of housing loans. In 1995, pension funds accounted for 95,000 loans. Similar to Government Assistance, home builders compete for funds by auction.

Conventional bank lending. Bank financing is generally available only to upper-middle and upper-income class buyers. Financing is not generally offered in the form of mortgages; rather, it takes the form of short to medium-term loans, usually with high interest rates, ranging from 25 to 50 percent (many banks are now increasing their mortgage portfolios, but still catering to upper-middle and upper-income classes). Nonetheless, there is sufficient demand at this level, that banks find they do not have to offer low-income mortgages as part of their business portfolios. Low-income mortgages bring a much higher risk level. They are not fully backed, and when foreclosure becomes necessary, a frequent

occurrence with low-income loans, the process can take up to three years.

One of Mexico's mortgage systems addresses the interests of both the borrower and the lender—it is indexed for inflation and the borrower's ability to repay, and the repayment period is adjustable. Mortgages of this type are called Dual-Indexed Mortgages. They are essentially another form of inducement to commercial banks.

After the peso crisis, some loans with variable rates rose to over 100 percent per month. Despite government aid, more Mexicans stop paying on their loans with each passing day. During 1995, the government bailed out various banks at great cost (5.5 percent of GDP), and more assistance will be required. Presently, high mortgage financing rates preclude the commencement of residential developments. Industry participants believe full recovery in the construction sector is dependent on recovery in the banking sector, and that is believed to be four to five years away.

HOUSING MARKET ACTIVITY, NEED AND DEMAND

The housing need in Mexico is significant. As of 1995, the housing deficit was six to seven million units. Much of the need is for low-cost housing but this market is very price sensitive, which means that effective demand is based on offering products which meet local price limits.

Local Technology

Concrete is the most common material used for house construction. The majority of homes are plastered concrete or concrete block. Other commonly used materials are summarized in the table below.

Economizing on materials is becoming a major priority. Materials now constitute 80 percent of the cost of housing. The largest projects are low-income type, and these tend to employ more advanced techniques than upper-income types, reflecting the need to reduce time and cost. Three main alternative technologies are being used to some degree in place of traditional concrete—steel panels, cellular concrete and lightweight concrete.

The Mexican people have reservations about using wood as the main building material in houses. Reasons include:

- the perception that it is structurally inadequate, compared to masonry;
- it is susceptible to hazards such as fire, rot, insect infestation, tornadoes and earthquakes, making it difficult to qualify for government-sponsored low-income projects;
- it is believed to be more maintenance-intensive than masonry (low-income buyers are perceived as being incapable of maintaining a wood-based house);
- it does not suit the means and methods of owner-built homes and masonry homes are completed as finances allow; and
- unfinished masonry construction can be left exposed indefinitely, where wood cannot.

Wood is not assigned sufficient longevity to qualify for bank financing. Banks require the life of a building to exceed the loan period by at least 50 percent. This can be as much as 45 years.

Many of Mexico's builders, on the other hand, have an in-depth understanding of the benefits and qualities of wood frame construction. The Consejo Nacional de la Madera en le Construccion (National Council for Wood Construction), has published a wood construction manual and developed a training program to improve the stock of skilled carpenters in Mexico, and the United Nations Industrial Development Organization has developed a wood-frame construction code for Latin America. Affluent Mexicans tend to have a better understanding of construction, and are more willing to try wood (and are able to afford it). Acceptability of wood-frame construction may spread to middle-income buyers, but it is estimated this will take 10 years or more.

Historically, regulatory and indirect costs have been high (as much as 25 percent of the cost of a house), but since 1992, the government has tried to bring these costs down to reasonable amounts through the Acuerdo de Desregularizacion para el Fomento a la Vivienda (Agreement to Deregulate and Promote Housing).

This Agreement features the following cost-reducing measures:

- a 10 percent transfer tax was previously imposed on all real estate transactions. It was not carefully calculated—the land was assessed low and taxed high. Now, the land is required to be assessed more realistically and taxed at not more than 2 percent;
- certification of property transfers by notaries added another 1 to 1.5 percent to the total cost. The Agreement proposed to reduce these fees (the extent of reduction is not known);

Table 8:
Mexico: Residential Construction Materials (by degree of occurrence)

Walls		Floors		Roofs	
Material	**%**	**Material**	**%**	**Material**	**%**
Concrete block, brick	70	Concrete	53	Concrete slab or brick	51
Adobe	15	Wood or tile	27	Asbestos or metal sheet	18
Wood	8	Earthen	12	Tile	10
Mud, straw	2	Other (unknown)	8	Cardboard	10
Bamboo, palm	2			Wood or palm	9
Cardboard	1			Other (unknown)	2
Asbestos or metal sheet	1				
Other (unknown)	1				

Source: Mexico, Department of Economics and Statistics

Table 9:
Mexico: Housing Values by Market Type

Market	Price Range	Percentage of Population	Number of Families	Average Income, 1996 $*
Low Income	up to $6,590	68	11,000,000	220
Medium-Low	$6,590 to $17,600	20	3,240,000	475
Medium	$17,600 to $33,000	7	1,133,000	815
Upper-Medium	$33,000 to $82,400	3.5	566,000	1,660
High End	>$82,400	1.5	243,000	4,225

* As of April, 1995, the minimum daily income was 18.3 pesos. Based on a 24-day working month, this translates to about $97 per month. Income levels in this table are based on legal minimums, and the estimated current minimum salary is taken as $110 per month.
Source: Mexico, Department of Economics and Statistics

- a land registration procedural fee for low-income housing was reduced from 2 to 1 percent; and
- A 10 percent value added tax (VAT) on the "indirect costs of mortgage loans" was eliminated.

Typical values of Mexican housing, together with an indication of the population segments to which the individual prices apply, are shown in the above table.

Local Housing Activities

Historically, annual investment in housing has averaged about 3 percent of GDP. As of 1990, housing constituted approximately 19 percent of all formal sector construction works. In 1994, approximately 503,000 housing units were built. Of this number, 65 percent was built by the formal sector, and 35 percent by the informal sector. A figure for current production levels is not available, however, it is estimated that the informal sector now accounts for as much as 50 percent, with no access to credit to finance the work. As a result, informally built housing is typical of barrio construction—it is generally poor in quality and is often located on illegal land, which lacks basic public services.

The construction sector was severely affected by the peso crisis of 1994. Soaring interest rates have made financing virtually unavailable, and many companies have ceased operations, some permanently, others temporarily, until recovery reaches a point where normal operations can resume. The time at which that might occur is not known—earliest estimates suggest mid- to late 1997.

Housing Need

The most recent year for which detailed information is available on the housing deficit in Mexico is 1990, and this data is given in the next table.

Estimates of the present deficit vary widely, from a low of three million units to a high of seven million units. Accurate production figures for the

Table 10: Mexico: 1990 Housing Statistics

Number of Households	17,394,368
Private Dwellings	16,035,233
Adequate	11,364,798
Repairable	2,705,723
Beyond Repair	1,964,712
Total Deficit	6,029,570
Quantitative	3,323,847
Qualitative	2,705,723
Annual Increase in Households (1990-95)	535,000

Source: ECLAC, Human Settlements: The Shelter of Development, October 1995

period 1990 to 1995 could not be obtained, but estimates of production for certain years within that time frame are available. These are compared to estimated annual needs, where those figures are available:

- estimated production in 1990 was 625,000 units, versus an annual needs estimate of 980,000 to keep up with household growth and deterioration of existing stock;
- estimated production for 1991 was 675,000 units, versus an annual needs estimate of 980,000 to keep up with household growth and deterioration of existing stock;
- estimated production for 1992 was 475,000 units, versus a needs estimate of 584,000 units to keep up with population growth and deterioration of existing stock;
- production for 1994 was approximately 500,000, versus annual incremental/ replacement needs of 800,000 units; and
- production for 1995 was 380,000 units.

Regardless of source, need always appears to outpace production. The 1995 housing deficit was in the range of 7 million units.

Table 11: Mexico: Forecast Housing Need

Year	Need	Year	Need
1996	671,318	2001	686,049
1997	679,204	2002	691,990
1998	687,375	2003	698,072
1999	695,838	2004	704,288
2000	704,608	2005	710,650

Source: Mexico, Department of Economics and Statistics

The number of households in Mexico in 1995 was estimated at approximately 19.1 million. This figure is forecast to reach 25.3 million by the year 2005, an average annual increment of 628,600. When replacement of existing deteriorated stock is included in the projections, the forecast need appears as summarized in Table 11.

Given this growth rate and the recent estimates of annual production, it seems likely that the housing deficit will continue to grow over the next decade.

Factors Affecting the Demand for Housing

For the foreseeable future, need will be concentrated at the low-end of the income scale. From 1996 to 2000, families earning less than half the minimum monthly salary will constitute 44 percent of the need for new housing. Families earning half to double the minimum monthly salary will constitute 40 percent of the need, those earning two to six times the minimum monthly salary will constitute 14 percent of the need, and families earning more than six times the minimum monthly salary will constitute only 2 percent of the need.

Interest rates are presently higher than low-income families can afford to pay. They are, therefore, totally reliant on government assistance. Effectively, this will reduce demand significantly because government assistance will not be available to all of them.

Up to half of low-income families will probably build their own shelters.

Reasonably priced land for residential development is scarce. Land exists, surrounding urban centres, in the form of farmland which is no longer suitable for farming. However, complex and expensive expropriation procedures prevent its conversion to urban use.

The preceding factors significantly reduce the overall demand in terms of those who will be willing and able to pay for housing. The low-income group will remain the largest segment of need, but the market will be difficult to access because of the low prices that must be met for social housing requirements.

EXPORT OPPORTUNITIES AND STRATEGIES

Canada ranked among the top five suppliers to Mexico in four of eleven product categories analyzed for 1993 and 1994. The products and sales volumes were as follows: coniferous wood products with sales of US$0.5 million in 1993 and US$1 million in 1994; manufactured wood items with sales volumes of US$3 million in 1993 and US$5.9 million in 1994; carpet with sales volume of US$0.7 million in 1993; and drywall with sales volume of US$3.2 million in 1994.

Other significant exports were electrical wire and cable with sales volumes of US$3.8 million in 1993 and US$5.5 million in 1994; electric ranges with sales volume of US$1.5 million in 1994; and PVC siding, with a sales volume of US$9 million in 1993 and US$10.5 million in 1994. Canada's exports of these products ranked from 6th to 12th among international suppliers. The U.S. was among the top five suppliers in all of the product categories analyzed, and was usually the top supplier.

Major building product imports to Mexico originate from many countries with none holding a dominant position. Germany is a large supplier. Brazil exports more to Mexico than Canada does. Canada has also lagged behind U.S., Japan, Germany and France.

Most of Canada's exports of other products investigated ranked reasonably well, typically from 6th to 15th, and sales volumes were often about US$0.5 million.

The demand for wood-frame housing is very limited. Consumers prefer masonry-based systems partly because of tradition, image and functional reasons (wood housing has not performed well due to attack by insects and climate which has led to early decay). In addition, the masonry industry is strongly entrenched and works to retain the predominance of concrete and masonry construction systems. As a result, demand exists for low-cost housing technologies in concrete and local materials. Some demand exists for light building technologies for the middle class.

The market for products has changed over time due to major factors such as the signing of NAFTA and the Mexican financial crisis in late 1994 and early 1995. Opinions for export prospects for various products vary with sources investigated, here are a few of the proposed export prospects: do-it-yourself renovation market, aluminum door and window frames (if the price is competitive), bi-fold closet doors and organizers, carpet, and wood flooring and wood mouldings (for the high-end market).

A number of studies have identified export products and prospects for various types of residential building products. The types of products identified vary over time. Some have identified prospects for exporting Canadian building products to Mexico. A summary of findings and recommendations of these studies is presented in the following tables.

Export barriers

Considerable investment is required to succeed with housing exports to Mexico. Developers and builders should expect a long learning curve process to become familiar with the Mexican marketplace. Time and effort have to be devoted to developing contacts, building relationships, and developing a business reputation. Trust and confidence have to be established before any consideration can be given to business alliances.

Table 12: Make-up of Canadian Building Product Exports to Mexico, 1991 (Values in Canadian $ Indicated)

Asbestos	$16.0 million
Wood Shuttering	$3.9 million
Automatic Circuit Breakers	$0.5 million
Iron angles and shapes	$0.2 million
Prefabricated buildings	$0.1 million

Table 13: Estimated Priority Housing Export Prospects to Mexico in 1993 and 1994
Decorative products such as wall and floor coverings
Hardware, i.e., doors and padlocks
Plastic bathroom fixtures and other sanitary articles
Light fixtures and other electrical equipment
Tools and construction equipment
Products for which Mexico has insufficient domestic production, i.e., asbestos, structural iron & steel, selected wood products (although little or no wood sheet products, shingles, doors, or mouldings have been exported to Mexico in the past), electric fixtures and pipes, bricks
Products for which Mexican producers can offer little variety, i.e., prefabricated housing, steel structures, aluminum and wood doors and windows.

Table 14: Estimated Priority Housing Export Prospects to Mexico in 1995
Steel frame systems
Manufactured and detached housing in northern Mexico. With the introduction of NAFTA, prefabricated housing is among the commodities that will benefit from accelerated tariff phase-outs
Decoration and finishing products, including curtains
Hardware, including locks
Aluminum and wood doors and windows
Kitchen and bathroom fixtures
Domestic plumbing products
Security systems
Weatherproofing coatings
Roofing materials
Carpets and other floor coverings
Selected wood products. Mexico's timber reserves are becoming less accessible, because there are insufficient funds to buy the necessary equipment and invest in manufacturing facilities, and the infrastructure is not conducive to wood transportation. Wood harvest is decreasing, while consumption (for concrete formwork, furniture, flooring, panelling, treated lumber products for resort work like piers, boardwalks, etc.) is increasing
Cost-effective technologies for high and medium rise structures
Technologies which are faster than traditional construction methods and which do not require skilled labour
Services, including financial services if mortgages become more common

There are barriers to wood-frame construction techniques. As in other Latin American countries, masonry construction predominates. Common barriers are cultural bias, reinforced by habit and precedent; insect problems; heat and high humidity in some parts of the country causing wood rot; and building codes that are written for masonry methods.

In addition, the following factors also play a part, some of which are also relevant in other Latin American countries:

- concrete and masonry is usually about 30 percent less expensive than wood-frame;
- some banks will not provide financing for wood-framed homes because they are perceived as prone to earthquake damage and require air conditioning or heating systems;
- skilled carpenters are in short supply; and
- wood-frame construction techniques are not compatible with the predominant methods of building.

Financial issues. Construction loans are hard to obtain in Mexico. Developers must be prepared to invest significant capital. Without it a project will not likely proceed. In addition, there is a shortage of reasonably priced urban land.

Table 15: Estimated Priority Housing Export Prospects to Mexico in 1996
The do-it-yourself market is growing because of the large number of housing renovation projects in Mexico. Two-thirds of the 380,000 housing projects in 1995 were renovations. Major foreign retailers moved into this market in 1995
As a result of the peso devaluation, the prospects of exporting items such as decorative panelling, kitchen cabinets, door and double-glazed windows, insulating materials and space heaters have decreased and efforts have been made to replace these normal import items with Mexican items, or at least items manufactured by Mexican labour. Other products listed as priority items in 1995 continue to be good prospects
Steel forms

Table 16:
Phase-out Schedule for Duties for a Range of Imported Building Products in Mexico

Product	Present Tariff	Phase-out, Period in Years
Wood shingles and shakes, lumber—softwood—continuously shaped, lumber—hardwood—continuously shaped, ceramic pipes, ceramic roofing tiles, cement, concrete, artificial building blocks and bricks, wood particle board	20	0
Veneers	15	0
Aluminum structures and parts, electric fuses, beech lumber, electrical plugs and sockets <1000Vdc, auto. circuit breakers	10	0
Prefabricated buildings	0	0
Wood windows, wood doors, frames, thresholds, parquet panels, wood shuttering, wood builder's joinery, plaster boards, metal mountings, fittings	20	5
Prefab. Cement structural components of buildings, lumber—various types, bricks, blocks and ceramic goods	15	5
Fibreboard	10	5
Ceramic sanitary fixtures, iron and steel doors and windows, aluminum doors and windows, chandeliers and other lighting fixtures, plastic floor, wall & ceiling coverings, plastic doors and windows	20	10
Wood panels—coniferous, non-coniferous & particle board, electrical boards and panels, auto. circuit breakers, insulated wire, co-axial cable	15	10
Electrical switches < 1000Vdc	10	10

Export competitors. The construction industry has a heavy reliance on domestic firms; many have ties with U.S. companies.

Code issues. Various assessments of Mexico's housing system report on the over-regulation of the housing industry and the resulting additional costs.

Special markets. The market for prefabricated houses is not considered good for the foreseeable future. An exception might be prefabricated vacation homes. If this market is to be pursued, exporters must be prepared to provide turn-key packages. This would probably require the use of subcontractors.

Some research reports note good potential for plastic products. However, Mexicans are reluctant to use components made from plastic, because it does not look substantial. In addition, plastic replacement parts must be imported, which takes time and causes problems when replacements are required.

Duties. Pursuant to NAFTA, tariffs on imported residential building products will be phased out over a ten-year period in accordance with the schedule illustrated in Table 16.

Market Prospects for Canadian Products

Information provided by several major Mexican builders indicates there are a number of opportunities available to Canadian suppliers and the findings are shown in the following table.

The most promising housing markets are middle and upper income markets, as well as tourist resorts where buyers might be more receptive to foreign methods. In addition, Mexicans generally favour importing technologies rather than finished products.

The main market opportunities in housing services may be in the fields of planning, development, financing and sales, because of a lack of this expertise in the Mexican market.

When a potential trade project involves investment, the Mexican Investment Board is available to help foreign investors. This government agency provides:

- information about investment opportunities and issues;
- information on the regions of Mexico;

Table 17:
Interviewee Response to Market Prospects for Selected Canadian Products In Mexico

Wood I-beam, floor trusses and roof trusses	These products are not considered to be of much use in the traditional construction systems utilized in Mexico. The main reasons for this are the negative perception against wood construction for housing among consumers and product prices.
Oriented strand board	As in the case of the above-noted manufactured wood products, the market for this product would be very limited.
Asphalt shingles	This product is used in Mexico and a market for it exists. However, the export prospects for Canadian-made shingles would be based on their price-competitiveness. Asphalt shingles are manufactured in Mexico and are probably available at a price lower than the price for Canadian shingles.
Vinyl siding	The interviewee doubted that this product would be marketable.
Insulation	There is not much demand for insulation. When insulation is required, rigid styrofoam is usually used.
Doors and windows	There is little demand for wood windows and exterior wood doors. The general perception based on extended experience is that wood windows do not work well and that installation requires good workmanship which is not always available. Most of the window and door frames used in construction in Mexico are anodized aluminum, and there is demand for them. Demand may also exist for vinyl windows if the price is competitive with the aluminum windows. Demand is strong for metal doors and wooden interior doors, but these products are produced locally and their prices are very competitive.
Closet doors and organizers	Manufactured closet organizers would be a new product in Mexico and could be attractive to consumers. The current practice is to build customized shelving.
Eavestrough	Most eavestrough is built on site. Products already available are as competitive as the Canadian products. Demand would only be based on competitive pricing.
Wooden floors	The demand for this product is strong, but it is restricted to the high-end of the housing market. No comment on prices.
Kitchen cabinets	Demand for the Canadian-style cupboards is limited and applies only to the high-end housing market. Further, kitchen cabinets are produced locally which means that competition for Canadian products would be difficult.
Stainless steel sinks	No demand for this Canadian product. Competition in the domestic market is strong and it absorbs the demand.
Toilets, bath tubs, lavatories and other bathroom fixtures	These products are produced domestically. The quality is high and prices are quite low. Canadian products would probably not be competitive.
Moldings	Demand is limited and restricted to the high-end of the housing market.
Hardware	No interest for these Canadian products. They are produced locally and are of good quality.
Security systems	No interest for these products. What is needed is locally produced.
Materials packages for manufactured houses	There is no market for this product because of the reasons given for negative consumer attitude about wood-frame construction.
Services	The builder/interviewee was not aware of any interest for any professional or technical assistance in the field of housing.
Effective approaches for doing business in Mexico	The most appropriate way to achieve good results is to establish a physical presence in Mexico, evaluate the results on an ongoing basis and make adjustments as required on site. If a Canadian company wanted to promote wood-frame construction and had developed advances which dealt with the problems with wood-frame housing noted previously, they should consider a demonstration project.

- information on setting up operations, costs, markets, suppliers, labour availability and ability, transportation, government incentives and taxation issues;
- detailed briefings including profiles of markets and industries and information on relevant government policies and programs;
- advice on the viability of projects, banking, accounting, dealing with authorities at all levels, and finding potential partners; and
- assistance with visits to Mexico: planning an agenda and contacting the right people.

Look for opportunities to make partnerships with Mexican firms because it helps to ensure that the

Canadian partner will have up-to-date information. Furthermore, it is important to have a friendly personal relationship with a partner.

Mexico can be considered a gateway to South America. As other countries join NAFTA, or as other Latin American countries establish regional trade agreements, experience with the Mexico market will help future dealings in those countries. Alliances with Mexican business partners can be strategically beneficial in developing business in other Latin American countries.

Overview

Mexico is one of the most popular destinations for Canadian travellers. For a business person, today's Mexican market offers a mixture of opportunities and challenges.

In spite of the recent Mexican economic crisis that has dominated the international media, the Mexican market holds significant potential for Canadian companies. Mexico has become one of the most open economies in Latin America and offers a number of comparative advantages. Chief among them are a large domestic market, a young, vibrant and cost-competitive labour force and the proximity of the wealthy American market to which Mexico has gained free access under the North American Free Trade Agreement (NAFTA). For the determined business person, Mexico has become an opportunity not to be overlooked.

However, though Mexico represents new business opportunities and a rapidly changing business environment, in exploring the potential of the Mexican market for your company, remember the following:

- be sensitive to the local business culture in which you will be dealing;
- develop a long-term view of your involvement in the Mexican market to fully enjoy the potential that exists; and
- provide the Mexicans with evidence of a concrete commitment so that a professional relationship can be developed.

The challenges of the Mexican market require you to prepare thoroughly and develop your market entry strategy. Much of this preparation can be done in Canada.

Whether you are travelling to Mexico on holiday or as part of a business trip, you may find that local conditions are different from those in Canadian cities. The following tips are designed as a guide for a safe and healthy trip.

- ensure that your immunizations are up to date, and ask your physician well in advance if any other vaccine is needed;
- severe air pollution occurs year-round in Mexico City, and reaches higher levels from December to April. Those affected by respiratory diseases should consult their physician before travelling to this city;
- Mexico City is located in a high-altitude valley, as are several other Mexican cities and tourist areas (San Luis Potosi, Guanajuato, etc.). Upon arrival in the city, even healthy persons may experience headaches, dizziness, lack of energy and insomnia. These symptoms tend to subside after two or three days. Avoid strenuous activities, excessive alcohol consumption and heavy meals. Consult a physician if your symptoms worsen after three days; and
- in Mexico City and other tourist centres, take the same precautions against pickpockets, purse snatchers, or armed robbers that you would take in any important capital of the world. Always keep your wallet in an inside front pocket, or use a money belt. Carry your purse tucked under your arm and, if possible, with the shoulder strap across your chest.

Visitors should take standard international dietary precautions in Mexico. It is best to drink bottled beverages without ice. Raw salads should not be consumed, all fruits should be peeled, and meat should be ordered well done. Fish should be cooked.

Business Customs

The length of the work day varies somewhat, depending upon the region of the country and the type of organization. Typically, in the Mexico City area companies may open at 9:00 or 9:30 a.m. and work until 7:00 p.m., with a long lunch beginning at 2:00 p.m. In the north, the work day may begin and end earlier, and lunch might be at 1:00 p.m. Federal government offices in Mexico City may open at about 10:00 a.m., break at 2:00 or 3:00 p.m. for lunch, and return at 5:00 or 6:00 p.m. to work into the evening until 9:00 p.m.

Business visitors should come with a large supply of business cards; they are used extensively. Mexicans make extensive use of professional titles

(doctor, professor, licenciado, ingeniero). It is courteous to address them by their titles. There is respect for older and more senior members of a group. It is customary to shake hands with all upon arrival and departure.

As in Canada, business may be conducted over a meal, especially breakfast or lunch. Business meetings in Mexico will often take longer than they would in Canada.

Mexican culture is distinctive and being aware of Mexican values will help cement a solid and harmonious business relationship. Personal relationships are very important and developing them can be the key to success. Mexicans do not like doing business over the telephone. They prefer to meet in person as a way of developing a closer and more trusting relationship. The time spent developing such relationships will be well repaid. It is customary to send a small gift or greeting card at Christmas to key business contacts.

In conversation, Mexicans emphasize tactful and indirect phrasing. They will make small talk about current events or the interests of their Canadian guests. Canadian business people with extensive experience in Mexico have commented on the reluctance of Mexicans to say no. It can take a while for a Canadian business person to understand how to interpret the "yes" which has been given in response to a question. Saying that one does not have the answer is difficult for Mexicans to do and they tend to be very polite and solicitous at all times. It is better to provide no answer at all than to deliver bad news. Sensitivity is essential and there is no substitute for experience.

In addition to the holidays listed in Table 18, December 1st is an obligatory holiday for the inauguration of a new president every six years; the last inauguration occurring in 1994. Religious holidays are frequently observed in private industry although not always in government offices.

Business Infrastructure

Air services between Canada and Mexico continue to improve as the number of direct scheduled flights increase from Montreal, Toronto and Vancouver to Mexico City. Business travellers generally go from city to city via commercial airline. There are two large ones, Mexicana and Aeromexico, and a number of newer regional lines. Schedules have been expanded considerably, offering service to a wide range of secondary cities in Mexico.

Table 18: Holidays

Nation-wide Holidays	
Jan. 1	New Year's Day
Jan. 6	
Feb. 5	
March 21	
May 1	
May 5	
Sept. 16	
Nov. 20.	
Dec. 25	Christmas Day
Private Industry Holidays	
Nov.1-2	Saints' Day
Dec. 26	(Día de Muertos)

For travel between Mexico City and nearby locations such as Puebla, some Mexican business people will use executive buses which offer airline style seating, beverage service, and movies on board. The fares are considered reasonable.

In the cities, many business visitors choose taxis over car rentals. Metered taxis cruise the streets in the largest cities; there are also taxi stands, but the fares are higher. Cars with bilingual drivers can be hired at most business hotels; they will negotiate fees on a daily basis if desired.

While many business people in the large cities speak some English, it may be difficult for them to conduct detailed technical discussions. First-time visitors may want to hire an interpreter. It is considered courteous if Canadian visitors speak even a few words of Spanish.

World-class business hotels are available in the major cities of Mexico; rates will approximate those of major Canadian and U.S. cities. Such hotels offer a full range of business centre services to the traveller. For the longer stay, some furnished apartment facilities with maid service are available in the Mexico City area. House and apartment rentals in Mexico are generally more costly than

they would be for comparable quarters in Canada or the United States.

Mexico's telecommunications infrastructure continues to have room for improvement. The system is overloaded and the line quality tends to be poor. There is a long waiting list to get a telephone installed, and consequently there is a strong demand for cellular phones.

The white pages of the telephone directory are reserved exclusively for personal listings. Business numbers appear in the yellow pages which are organized according to trade.

When you are in Mexico, making calls to Canada can be difficult because of language problems or unpredictable long distance rates and hotel surcharges.

With the Canada Direct service, you get:

- Canadian operators who will serve you in either English or French;
- low Canadian rates;
- time of day discounts based on the time and day in Canada;
- choice of payment: use your Calling Card, call collect or use a HELLO phone pass; and
- if you are a Real Plus, Advantage, or Teleplus Overseas customer, these discounts apply on calls placed using your Calling Card.

For more information on Canada Direct, call 1-800-561-8868 before leaving home.

To reach a Canadian operator through Canada Direct in Mexico dial: 95-800-010-1990.

Distribution and Sales Channels

The major marketing areas are:

- The central area around Mexico City (population of 18.2 million people) that includes the cities of Puebla, Toluca, Cuernavaca, and Pachuca. This is the political, commercial, financial, and cultural centre of the country.
- The Bajio area around the City of Guadalajara (population of 6 million people) that includes the cities of Leon, Aguascalientes, Celaya and Irapuato). This is an important commercial, industrial and agricultural area with Guadalajara as the financial hub for the area.
- The northern area around the City of Monterrey (population of 4.7 million people) that includes the cities of Torreon, Saltillo, and Monclovia). This is an important industrial area producing a variety of products including steel, glass, textiles, beverages, paper and chemicals.
- The 2000 mile U.S.-Mexico Border (population of over 3 million people) that includes the cities of Juarez, Tijuana, Mexicali, Matamoros, Reynosa and Nuevo Laredo. This is an active industrial, agricultural and tourist area.

The market employs many of the same sales, distribution and marketing techniques used in Canada and the U.S. When approaching the market to develop a market entry strategy, Canadian exporters should consider many points such as:

- small retailers and family-owned businesses dominate the market;
- mass merchandising is popular especially for consumer goods; and
- there is a need for performing original market research, since there is a limited amount of available information, and statistics can be scarce.

The Canadian exporter also needs to be aware of and respect local customs: use breakfast and lunch meetings as an important vehicle to conduct business in a social setting; try not to use dinner for conducting serious business.

The infrastructure is not fully developed and major distribution and marketing centres are not connected by major highways. Direct marketing and telemarketing is still evolving as a marketing strategy. If the product is new to the market, or if the market is extremely competitive, advertising and other promotional support should be negotiated in detail with your agent or distributor.

Finding a Partner

Most foreign firms sell into the Mexican market by appointing a Mexican agent or distributor. Many Canadian firms have successfully opened direct sales offices and subsidiaries.

With few exceptions, direct sales into Mexico by Canadian-based manufacturers and distributors can be difficult to close. The current difficult economic situation has caused many distributors to conserve scarce financial resources by not stocking imported products.

You should take care when selecting a Mexican associate to develop the market, English language capability should not be exaggerated as a decision factor. Other criteria, such as product and industry knowledge, track record, enthusiasm and commitment should be weighted heavily. Service and price are extremely important to Mexican buyers. The Canadian exporter should also schedule an annual visit of Mexican personnel to Canadian facilities for training.

Selection of the appropriate agent or distributor requires time and effort. Though there may be numerous qualified candidates, use high standards in selecting agents and distributors. If the selected Mexican firm is selling into a limited area, appoint others located in other cities to broaden distribution. It is important to develop a close working relationship with the appointed agent or distributor. Providing appropriate training, product support, including supplying spare parts on a timely basis, is a must.

There are no indemnity laws to prevent a company from terminating an agent or distributor agreement.

Exclusivity will be requested by most candidates. Review the request carefully. Sales performance clauses in agent and distributor agreements are permitted and failure to meet established standards can be cause for contract termination. As in Canada and the U.S., few distributors service the entire market.

Prior to signing the agent or distributor agreement, make certain that the person understands the terms and conditions and the relationship to be developed. Many relationships are strained when they are not fully developed or understood, especially when delays are encountered in a stagnant economy.

Joint Ventures and Licensing

Joint venture arrangements should be considered to strengthen market penetration. Joint ventures have traditionally been used as a way of avoiding restrictions of foreign ownership when entering a foreign market. In the case of Mexico, this is less of a consideration given the opening of the economy and the relaxation of ownership restrictions governing foreign direct investment.

Licensing is not usually considered to be a form of partnership though it can lead to partnerships or be an important element in their formation. This type of arrangement is often highly beneficial for third-country marketing. In the case of Mexico, licensing could be used to allow Mexican partners to manufacture under licence for export to lucrative markets in other Latin American countries.

Establishing an Office

While maintaining a representative or office in Mexico is not a prerequisite to obtaining contracts, it can facilitate obtaining the information needed to prepare bid documents and support after-sales service and parts supply.

After sales have increased to the point that a presence in Mexico would prove useful in building a reputation with customers through an on-site presence. Consider opening a local representative office.

Selling Factors and Techniques

Personal contact with customers and agents is important to building long-lasting relationships. Invite important business contacts to visit Canada, which will also serve to familiarize them with the country and companies they do business with.

Sales presentations at potential customer facilities are effective techniques. Engineers and managers are directly responsible for products purchased and they have considerable influence in the buying decision.

Once the initial contact has been made, follow-up distribution with promotional materials. Catalogues and telephones will help maintain a presence in the market. Information should be provided in Spanish and should focus on the quality of existing and new products.

Advertising and Trade Promotion

There is a wide range of broadcast and print media available. Many are industry specific. Many specialized business magazines are published in Mexico. Mexico City has over 15 newspapers. Advertising in Mexican print media is usually more expensive than in Canada. Advertising rates generally approximate those of large international cities.

Successful ad campaigns are generally described as having a local touch, which may include both linguistic and cultural considerations. Exporters may wish to seek assistance from one of the many full-service advertising agencies in Mexico City, many of which are branches of U.S. and other international firms.

Mexico City has 25 FM and 35 AM Spanish-language radio stations. Radio VIP (FM 88.1) broadcasts in English. A magazine published by Medios Publicitarios Mexicanos, S.A. de C.V. specializes in radio and television stations. It includes all the radio stations in Mexico with their addresses and telephone numbers.

Mexico City has two television networks with a total of seven channels, all in Spanish. Over 500,000 families and hotels subscribe to Cablevision in Mexico City. Another 200,000 subscribe to a second cable service, Multivision. Both contain a considerable number of U.S.-origin channels, some with advertising in Spanish.

Some important business publications in Mexico are:

- Expansion (Twice monthly)
  Sinaloa No. 149, 9th Floor
  Col. Roma Sur
  06700 Mexico, D.F.
  Tel.: (525) 207-2176
  Fax: (525) 511-6351

  This is Mexico's international business magazine. It provides an in-depth news and analysis on business, finance, trade and politics in Mexico.

- El Financiero Weekly International Edition
  2300 S. Broadway
  Los Angeles, CA 90007
  Tel.: (213) 747-7547, (800) 433-4872
  Fax: (213) 747-2489

  Affiliated with Mexico's newspaper El Financiero, this international edition has a circulation of 64,000.

- Business Mexico (Monthly)
  The American Chamber of Commerce in Mexico
  Lucerna 78, Col. Juarez
  06600 Mexico, D.F.
  Tel.: (525) 724-3800
  Fax: (525) 703-2911 or 703-3908
  Circulation 10,000

  Published by the American Chamber of Commerce of Mexico, its readers are senior Mexican and American executives in Mexico. Many Mexican companies that do business with U.S. companies are subscribers.

Pricing Products

Standard cost-pricing formulas should not be relied upon in Mexico since they may lead to over-pricing. Market research should be conducted to determine what prices will be accepted by the market. Once a market niche is established, more flexibility on pricing may be possible.

Profit margins on goods sold in Mexico appear to be high, but economic considerations and increased market competition have begun to exert an influence. Exporters should look carefully at import duties, (taking into account the NAFTA tariff reductions) broker's fees, transportation costs, and taxes before establishing local prices. Sales for inventory reduction are less common than in the U.S., as are factory stores rebating seconds or overstocks. Both consumer and industrial markets have shown increased price sensitivity during an economic recession.

Sales Service and Customer Support

The ability to offer prompt, high-quality service adds a competitive edge and shows commitment to customers. Winning business in Mexico requires

focus on service. Mexicans tend to rank service with price, and expect attention before, during and after the sale.

Selling to the Government

Government of Mexico bidding opportunities appear in the Official Gazette, in major newspapers, and a weekly private publication entitled, "Resumen de Convocatorias" (Editorial Grupo Miranova, Moras 736-B, Colonia del Valle, 03100 Mexico D.F. Telephone (52-5) 524-7154 or 524-7254. Fax (52-5) 524-7094. Mexican law and NAFTA have mandated specific lead times for bids of a certain estimated value.

Each para-governmental or governmental agency may request registration by suppliers, even though this procedure is no longer mandated by law. Registration can usually take place at the time of bidding. Documents required for registration may include legal or incorporation papers, the business license, proof of membership in the appropriate business chamber, proof of property tax payment, audited financial statements, and/or a power of attorney statement naming the legal representative in Mexico. Documents usually must be in Spanish.

Protecting Your Intellectual Property

Mexico is a member of most international organizations regulating the protection of intellectual property rights (IPR).

The Mexican government strengthened its domestic legal framework for protecting intellectual property in 1991 with the promulgation of a new industrial property law (patents and trademarks), and an extensive revision of its copyright law. Product patent protection was extended to virtually all processes and products, including chemicals, alloys, pharmaceutical, biotechnology and plant varieties. The term of patent protection was extended from 14 to 20 years from the date of filing. Trademarks are now granted for 10-year renewable periods.

Sanctions and penalties against infringements were increased and damages can now be claimed regardless of the application of sanctions.

The Mexican Institute for Industrial Property was created in November 1994 to professionalize and improve patent and trademark enforcement. Implementation of the NAFTA provisions further strengthen IPR protection by providing for nondiscriminatory national treatment of IPR matters and proprietary data, and by providing express protection for trade secrets and proprietary information.

Need for Local Legal Assistance

There is a need for Canadian companies to use a Mexican lawyer, though they are usually expensive. The role of legal counsel has rapidly expanded as Mexican industries are privatized and deregulated, and has been further spurred due to NAFTA. Mexico has many lawyers and the overall quality of legal services is equivalent to those found in developed countries.

Canadian companies should retain a lawyer knowledgeable in Mexican law and commercial transactions and who has bicultural or multicultural experience. Lawyers with this type of experience are primarily located in Mexico City, Monterrey, Guadalajara and the Mexican-U.S. border areas.

Regulatory Issues

Visas

A tourist card in a valid passport does not entitle a foreign visitor to carry on business operations in Mexico. Visitors who plan to do business in Mexico should enter the country on a non-immigrant visa as an employee of a company, or as a self-employed individual. Those travelling on tourist visas are not allowed to receive remuneration from Mexican sources. Visas are available from Mexican consulates.

You may qualify as a business visitor if:

- you are a citizen of a NAFTA member country;
- you are seeking entry for business purposes;
- the proposed business activity is international in scope;
- you have no intention of entering the labour market;
- your primary source of remuneration is outside of the country to which you are seeking entry;
- the principal place of business and the accrual of profits remain outside of the country to which you are seeking entry; and

- you meet existing immigration requirements for temporary entry.

These requirements can best be satisfied by presenting a letter setting out all the circumstances of the business trip to an immigration officer at the port of entry. It is also recommended that you carry a passport.

Canadian business visitors entering Mexico must meet the general qualifying criteria listed above and complete an FMN form; this can be obtained at no charge from travel agencies, airlines, and Mexican immigration officers at ports of entry.

The FMN asks for information such as:

- personal data;
- the type of activity to be carried out; and
- the name and address of the enterprise to which you are affiliated, as well as that of the principal enterprise or person in Mexico with which you will be performing the described activities.

The period of validity of the FMN is 30 days but it can be extended once for an additional 30 days if the circumstances of entry into Mexico have not changed and if you are unable to leave and return to Mexico with a new FMN. The FMN must be handed back to immigration officers on departure from Mexico.

Laws Governing Businesses

Mexico has revised many of its commercial laws and regulations, particularly as they relate to foreign business activities and investments. Many industries have been privatized and deregulated. Mexico encourages foreign investment.

Foreign investment companies. Before doing business in Mexico, foreign corporations must register in the National Registry of Foreign Investment. Foreign visitors travelling to Mexico on business, even on a temporary and informal basis, must comply with the Mexican immigration code. That requires them to obtain visas and other documents that legalize their presence in the country for purposes of conducting business.

Local and foreign companies. The formation and operation of companies in Mexico are controlled primarily by the General Law of Commercial Companies. Government approval for formation is required, and most requests to open manufacturing operations in metropolitan areas are denied to force industrial activity into less developed areas.

Commercial activities. Business transactions are governed generally by contract, agency, and remedy laws contained in the Civil Code.

Tax Considerations

Canadian firms can do business from Canada without establishing income tax and other obligations with the Mexican Government. In appointing an intermediary, or an agent or distributor, they should be limited to performing market research promotion, solicitation and negotiation of the sale of products and services. Canadian firms should not grant permission to the local company to execute contracts. The Mexican firm should only provide clients with information, pricing, payment terms, ordering services, and can receive payment for the Canadian firm.

Canada and Mexico have entered into a Double Taxation Agreement, the first such international tax treaty entered into by the Mexican government. The objective is to prevent double taxation, to establish fiscal cooperation between taxing authorities of the signatory countries, to ensure fairness to taxpayers, and to enforce the revenue laws of both countries. Proper planning can greatly reduce a tax burden, and tax advisors should be consulted in both countries.

Mexico imposes an income tax on non-residents who work 15 days or more in Mexico during a twelve-month period. The tax is due regardless, whether the salary is paid by a non-resident employer or a Mexican entity. The regulations are vague as to what constitutes a day's work or how the tax will be collected. The first 14 days are tax exempt, however on the fifteenth day, all work, including the first 14 days are subject to tax. The regulations imply that the employer is required to withhold 30 percent of the non-resident's gross salary.

Special tax treatment is rarely accorded to foreign investors, foreign subsidiaries, or expatriate personnel working and residing in Mexico. Consequently, it is generally preferable to operate in Mexico as a Mexican corporation and receive

more favourable tax treatment. Specific taxes are levied on income, capital or commercial transactions, and contracts or agreements.

The corporate tax rate in 1994 was 34 percent, reduced from 42 percent in 1989 and 35 percent in 1991, making it fairly competitive with other countries in the developed world.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities *book (fall, 1996).*

These issues should be taken into consideration when assessing financial risk in Mexico.

- The peso crisis is over and the Mexican economy has begun a slow recovery. The external sector will lead the recovery, as domestic demand is limited by the availability of financing and weak income growth. Interest rates have remained in the 25 to 30-percent range to protect the peso and reduce inflation. The level of employment as measured by insured workers is still below pre-crisis (November 1994) levels. Although the fall of the peso is principally responsible for the improved trade balance, export industries in Mexico tend to be more dynamic, efficient and better managed than those that exclusively service the domestic market.
- The government estimates that official support programs related to the fragile banking system will cost about 7 percent of the 1996 GDP to be paid out over the next 30 years. Some private estimates are much higher, suggesting the final cost will be 12 to 14 percent of GDP. At the end of the first quarter of 1996, past due loans represented 18.2 percent of the overall commercial bank loan portfolio, or 8.4 percent of GDP. It is widely expected that when Mexican banks adopt internationally accepted accounting principles in 1997, past due loans will be in the 30 to 35-percent range.
- In mid-1996, a major government debt management initiative was undertaken to smooth the external debt repayment profile. Mexico prepaid US$7 billion to the US Treasury and US$1 billion to the International Monetary Fund (IMF). The debts were part of the US$49-billion international assistance package extended to Mexico following the peso crisis. The funds for the repayment were drawn from an international bond placement, reflecting the speed with which Mexico was able to return to international financial markets. In the first eight months of the year, Mexico issued about US$14.1 billion of international bonds and the spread between comparable U.S. Treasury bonds declined.
- Recovery in the short-term could be subject to periodic setbacks associated with unsettled financial markets and lapses in international investor confidence. The government's commitment to prudent policy management will be put to the test in the lead-up to elections in 1997. Medium-term growth prospects remain clouded by structural imbalances such as the low national savings rate and the weak banking sector. EDC does not rule out another serious deterioration of the external accounts.

Collection Experience

The overall collection experience in Mexico is fair with some payment delays. A full range of trading terms is common. Caution is advised with credit and financial issues. Devaluation and higher borrowing costs have had considerable impact on financial strength of buyers, particularly those companies with heavy reliance on foreign supply and minimal exports.

Canada Mortgage and Housing Corporation

Housing Export Centre	700 Montreal Road Ottawa, Ontario K1A 0P7	Tel.: 1-800-465-6212 or (613) 748-2000 Fax: (613) 748-2302

Canadian Government Departments and Services

Department of Foreign Affairs and International Trade (DFAIT)	InfoCentre Lester B. Pearson Building 125 Sussex Drive Ottawa, ON K1A 0G2	Tel.: 1-800-267-8376 or (613) 944-4000 Fax: (613) 996-9709 FaxLink: (613) 944-4500 InfoCentre Bulletin board: Tel.: 1-800-628-1581 or (613) 944-1581
	Latin American and Caribbean Trade Division Mexico Division (LMR) 125 Sussex Drive Ottawa, Ontario K1A 0G2	Tel.: (613) 996-5611 Fax: (613) 996-6142
	Export Development Corporation Head Office 151 O'Connor Street Ottawa, Ontario K1A 1K3	Tel.: (613) 598-2500 Fax: (613) 237-2690

Canadian Government Offices in Mexico

Mexico City	The Canadian Embassy Calle Schiller No. 529 Colonia Polanco 11560 México, D.F., México	
	Postal Address: Apartado Postal 105-05 11580 México, D.F., México	Tel.: (5) 724-7900 (from within Mexico City) Tel.: 91-800-70629 (toll free from anywhere in Mexico) Fax: (5) 724-7980
Guadalajara	Consulate of Canada Hotel Fiesta Americana, Local 30-A Aurelio Aceves 225 Col. Vallarta Poniente 44110 Guadalajara, Jalisco, México	Tel.: (3) 616-5642, 615-6215, 615-6266, 615-6270 Fax: (3) 615-8665
Monterrey	Consulate of Canada Edificio Kalos, Piso C-1, Local 108-A, Zaragoza 1300 Sur, esq. Constitucion, Monterrey, Nuevo Leon, México	
	Postal Address: 6400, Monterrey, Nuevo Leon, México	Tel.: (83) 44-27-53, 44-29-06, 44-29-61, 44-32-00 Fax: (83) 44-30-48

International Trade Centres

Newfoundland	International Trade Centre P.O. Box 8950 Atlantic Place 215 Water Street Suite 504 St. John's, NF A1B 3R9	Tel.: (709) 772-5511 Fax: (709) 772-5093

International Trade Centres (cont'd)

Prince Edward Island	International Trade Centre P.O. Box 1115 Confederation Court Mall 134 Kent Street Suite 400 Charlottetown, PE C1A 7M8	Tel.: (902) 566-7400 Fax: (902) 566-7450
Prince Edward Island	International Trade Centre P.O. Box 1115 Confederation Court Mall 134 Kent Street Suite 400 Charlottetown, PE C1A 7M8	Tel.: (902) 566-7443 Fax: (902) 566-7450
Nova Scotia	International Trade Centre P.O. Box 940, Station M 1801 Hollis Street Halifax, NS B3J 2V9	Tel.: (902) 426-7540 Fax: (902) 426-5218
New Brunswick	International Trade Centre 1045 Main Street Unit 103 Moncton, NB E1C 1H1	Tel.: (506) 851-6452 Fax: (506) 851-6429
Quebec	International Trade Centre 5 Place Ville-Marie Seventh Floor Montreal, PQ H3B 2G2	Tel.: (514) 283-6328 Fax: (514) 283-8794
Ontario	International Trade Centre Dominion Public Building 1 Front St. West Fourth Floor Toronto, ON M5J 1A4	Tel.: (416) 973-5053 Fax: (416) 973-8161
Manitoba	International Trade Centre P.O. Box 981 330 Portage Avenue 8th Floor Winnipeg, MB R3G 2V2	Tel.: (204) 983-5851 Fax: (204) 983-3182
Saskatchewan	International Trade Centre The S.J. Cohen Building 119-4th Avenue South Suite 401 Saskatoon, SK S7K 5X2	Tel.: (306) 975-5315 Fax: (306) 975-5334
Alberta ** Edmonton office is also responsible for Northwest Territories*	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3	Tel.: (403) 495-2944 Fax: (403) 495-4507
	510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia **Vancouver office is also responsible for the Yukon*	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

Export Development Corporation (EDC)

Ottawa	151 O'Connor Street Ottawa, ON K1A 1K3	Tel.: (613) 598-2500 Fax: (613) 237-2690
Vancouver	One Bentall Centre 505 Burrard Street Suite 1030 Vancouver, BC V7X 1M5	Tel.: (604) 666-6234 Fax: (604) 666-7550

Export Development Corporation (EDC) (cont'd)

Calgary	510-5th Street S.W. Suite 1030 Calgary, AB T2P 3S2	Tel.: (403) 292-6898 Fax: (403) 292-6902
Winnipeg **office also serves Saskatchewan*	330 Portage Avenue Eighth Floor Winnipeg, MB R3C 0C4	Tel.: (204) 983-5114 Fax: (204) 983-2187
Toronto	National Bank Building 150 York Street Suite 810 P.O. Box 810 Toronto, ON M5H 3S5	Tel.: (416) 973-6211 Fax: (416) 862-1267
London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

Multilateral Organizations

World Bank	Washington, D.C. 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, DC 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726

Business and Professional Organizations in Canada

The Canadian Council for the Americas (CCA)	Executive Offices, Third Floor 145 Richmond Street West Toronto, Ontario M5H 2L2	Tel.: (416) 367-4313 Fax: (416) 367-5460
Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, Ontario K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218
The Canadian Chamber of Commerce	Hamburgo 172-5 Piso Col. Juarez 06600 México, D.F. México	Tel.: (5) 525-0741 Fax: (5) 525-0438

Mexican Government Offices in Canada

Embassy of Mexico	45 O'Connor, Floor 15 Ottawa, Ontario K1P 1A4	Tel.: (613) 233-8988 Fax: (613) 235-9123
Mexican Consulate in Ottawa Secretariat for Commerce and Industrial Promotion (SECOFI)	45 O'Connor, Floor 15 Ottawa, Ontario K1P 1A4	Tel.: (613) 235-7782 Fax: (613) 235-1129
Consulate General of Mexico in Montreal	2000, rue Mansfield, Suite 1015 Montréal, Québec H3A 2Z7	Tel.: (514) 288-2502 Fax: (514) 288-8287
Consulate General of Mexico in Toronto	60 Bloor Street West, Suite 203 Toronto, Ontario M4W 3B8	Tel.: (416) 922-2718 Fax: (416) 922- 8867
Consulate General of Mexico in Vancouver	810-1139 West Pender Street Vancouver, B.C. V6E 4A4	Tel.: (604) 684-3547 Fax: (604) 684-2485

Mexican Banks with Offices in Canada

	Bancomext Trade Commission of Mexico P.O. Box 32, Suite 2712 TD Bank Tower 66 Wellington Street Toronto, Ontario M5K 1A1	Tel.: (416) 867-9292 Fax: (416) 867-1847
	Bancomext Trade Commission of Mexico 200 Granville Street, Suite 1365 Vancouver, B.C. V6C 1S4	Tel.: (604) 682-3648 Fax: (604) 682-1355
Bancomext	Trade Commission of Mexico 1501 McGill College, Suite 1540 Montréal, Québec H3A 3M8	Tel.: (514) 287-1669 Fax: (514) 287-1844
Banamex (Banco Nacional de Mexico)	Suite 3430 1 First Canadian Place P.O. Box 299 Toronto, Ontario M5X 1C9	Tel.: (416) 368-1399 Fax: (416) 367-2543
Banca Serfin	161 Bay Street BCE Place Canada Trust Tower Suite 4360, P.O. Box 606 Toronto, Ontario M5J 2S1	Tel.: (416) 360-8900 Fax: (416) 360-1760
Bancomer	The Royal Bank Plaza South Tower, Suite 2915 Toronto, Ontario M5L 2L2	Tel.: (416) 956-4911 Fax: (416) 956-4914

Canadian Banks in Mexico

Bank of Montreal	Horacio No. 1855-301 Col. Polanco 11510 México, D.F. México	Tel.: (5) 203-8211 Fax: (5) 203-8542
Royal Bank of Canada	Hamburgo 172-5 Piso Col. Juarez 06600 México, D.F. México	Tel.: (5) 525-0541 Fax: (5) 525-0961

Mexican Federal Government Departments

Secretariat for Commerce and Industrial Promotion (SECOFI)	Alfonso Reyes No. 30, Piso 10 Col. Hipódromo de la Condesa 06170 México, D.F., México	
Mexican Investment Board (Consejo Mexicano de Inversión)	Reforma 915 Col. Lomas de Chapultepec 11000 México, D.F., México	Tel.: (5) 202-7804 Fax: (5) 202-7925
National Chamber of Transformation Industry (CANACINTRA) (Cámara Nacional de la Industria de la Transformación).	Av. San Antonio 256 Col. Nápoles 03849 México, D.F., México	Tel.: (5) 563-3400 ext. 163 Fax: (5) 598-6988
Bancomext (Foreign Trade Bank) BancoNacional de Comercio Exterior	Periferico Sur 4333 Col. Jardínes de la Montaña 01900 México, D.F., México	Tel.: (5) 227-9008 Fax: (5) 227-9070

Mexican Business and Professional Organizations

National Association of Importers and Exporters of the Mexican Republic (ANIERM)	Asociación Nacional de Importadores y Exportadores de la República Mexicana Monterrey No. 130 Col. Roma 06700 México, D.F., México	Tel.: (5) 564-9379 Fax: (5) 584-5317

Mexican Business and Professional Organizations (cont'd)

National Chamber of Commerce (CANACO) Cámara Nacional de Commercio	Paseo de la Reforma No. 42, Piso 3 Col. Juárez 06600 México, D.F., México	Tel.: (5) 592-2677 Fax: (5) 592-3403
National Chamber of the Construction Industry Cámara Nacional de la Industria de la Construcción	Periférico Sur No. 4839 Col. Parques del Pedregal 14010 México, D.F., México	Tel.: (5) 665-0424 Fax: (5) 606-8329

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Telephone Number ( )	Fax Number ( )	

METHOD OF PAYMENT

Check only one (individuals must prepay all orders.)

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Card Number
Expiry Date
Signature

☐ Payment enclosed $ ____________
Please make cheque or money order payable to CMHC

To Complete See Example on Reverse Side

ORDER NUMBER	REPORT TITLE Please be sure the order number and report title match the listing	1 QTY	2 ITEM AMOUNT $	3 TOTAL $ AMOUNT 1 x 2	4 SHIPPING POINTS	5 TOTAL SHIPPING POINTS 1 x 4
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	

SOURCE
(How did you hear about the product?)

TV AD ☐ ☐ CATALOGUE
NEWSPAPER ☐ ☐ FLYER/BROCHURE
MAGAZINE ☐ ☐ OTHER

Subtotal Column 3	A	
SHIPPING CHOICE Regular Mail ☐ Courier ☐ ADD Shipping & Handling	B	
Subtotal (Add A + B)	C	
Registration #100756428 ADD GST (7% of subtotal C)	D	
Subtotal (Add C + D)	E	
Quebec residents add PST (6.5% of Subtotal E)	F	
Total (Add E + F)	G	

Subtotal Column 5

Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.

SEE EXAMPLE ON REVERSE

U.S. AND INTERNATIONAL ORDERS
Please pay subtotal C in U.S. Funds
(do not add GST or PST)

Shipping and Handling Charges

Points	Canada Regular Rates	Canada Courier Rates	U.S. Regular Air Rates	U.S. Courier Rates	International Regular Air Rates	International Courier Rates	Europe Courier Rates
1	2.55	5.00	5.00	11.00	7.00	24.00	19.00
2	3.65	8.00	6.50	14.00	9.00	30.00	25.00
3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
181 to 200	10.98	35.60	69.38	176.75	250.29	658.75	269.75
201 to 220	11.48	40.45	75.05	190.75	N/A	718.75	289.75
221 to 240	11.99	43.30	80.72	204.75	N/A	778.75	309.75
241 to 260	12.49	46.15	86.49	218.75	N/A	838.75	329.75
261 to 280	13.00	49.00	92.21	232.75	N/A	901.75	349.75
281 to 300	13.50	51.85	97.88	246.75	N/A	958.75	369.75
Estimated Delivery times	2-3 weeks	5-10 days	2-3 weeks	5-10 days	4-8 weeks	12 days	12 days

Prices Subject to Change

CMHC Return Policy

We will replace damaged materials and correct shipping errors if we are notified within thirty days after you receive your shipment. If an item is not defective or not mistakenly shipped, then it must be returned by you at your cost within thirty days of receipt. It must arrive here in resaleable condition for you to receive credit.

International Note: Most international return shipments arrive damaged. If you received damaged items, contact CMHC at (613) 748-2969. Please do NOT return the damaged items unless we ask.

Example: To complete order form and determine shipping and handling charges

ORDER NUMBER	REPORT TITLE Please be sure the order number and report title match the listing	1 QTY	2 ITEM AMOUNT $	3 TOTAL AMOUNT 1 x 2	4 SHIPPING POINTS	5 TOTAL SHIPPING POINTS 1 x 4
NHA 8003	Brazil	1	35.–	35.–	3	3
NHA 8009	Western Europe	2	23.–	46.–	3	6
					3	
					3	

SOURCE
(How did you hear about the product?)

TV AD ☐ ☐ CATALOGUE
NEWSPAPER ☐ ☐ FLYER/BROCHURE
MAGAZINE ☐ ☐ OTHER

U.S. AND INTERNATIONAL ORDERS
Please pay subtotal C in U.S. Funds
(do not add GST or PST)

Subtotal Column 3	A	81.–
SHIPPING CHOICE Regular Mail ☑ Courier ☐ — ADD Shipping & Handling	B	6.18
Subtotal (Add A + B)	C	87.18
Registration #100756428 — ADD GST (7% of subtotal C)	D	6.10
Subtotal (Add C + D)	E	93.28
Quebec residents add PST (6.5% of Subtotal E)	F	–
Total (Add E + F)	G	93.28

Subtotal Column 5: 9

Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.

CMHC's Housing Export Opportunities series contains up-to-date, relevant information on foreign housing markets for the Canadian Housing industry. Our country reports provide you with the market research and analysis you need to make the right business decisions about today's most dynamic offshore housing markets.

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